

CASEVILLE HOUSING COMMISSION

Financial Statements

March 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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Certified Public Accountant

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Board of Commissioners
Caseville Housing Commission
6925 N. Caseville Road
Caseville, Michigan 48725

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Caseville Housing Commission as of and for the year ended March 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Caseville Housing Commission as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 22, 2004 on my consideration of the Caseville Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Certified Public Accountant

July 22, 2004

CASEVILLE HOUSING COMMISSION
Balance Sheet
March 31, 2004

ASSETS

C-3219

CURRENT ASSETS

Cash	\$	66,191	
Accounts Receivable		2,172	
Investments		135,143	
Prepaid Expenses		5,888	
Interprogram Due from		<u>1,741</u>	
Total Current Assets	\$		211,135

NON CURRENT ASSETS

Land	\$	75,000	
Buildings		1,582,551	
Furniture, Equipment- Dwellings		9,668	
Furniture, Equipment- Administrative		53,736	
Leasehold Improvements		2,626	
Accumulated Depreciation		<u>(609,069)</u>	
Total Non Current Assets			<u>1,114,512</u>

TOTAL ASSETS \$ 1,325,647

Balance Sheet
March 31, 2004

LIABILITIES & EQUITY

C-3219

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	12,122
Accrued Wages & Payroll Taxes		4,032
Accrued Compensated Absences		2,713
Accounts Payable-Other Governments		8,811
Tenants Security Deposit		11,192
Deferred Revenue		43
Interprogram Due to		<u>1,741</u>
<u>Total Current Liabilities</u>	\$	40,654

EQUITY:

Contributed Capital	\$	872,052
Retained Earnings		<u>412,941</u>
<u>Total Equity</u>		<u>1,284,993</u>

TOTAL LIABILITIES & EQUITY \$ 1,325,647

The Accompanying Notes are an Integral Part of the Financial Statements

Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended March 31, 2004

OPERATING REVENUES

Tenant Rental Revenue	\$ 110,128
Tenant Revenue- Other	552
HUD Grants	92,709
Interest Income	3,161
Other Income	<u>2,560</u>

<u>Total Operating Revenue</u>	\$	209,110
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OPERATING EXPENSES

Administrative	\$ 77,501
Tenant Services	1,972
Utility Expenses	22,066
Ordinary Maintenance	46,840
Protective Services	301
General Expenses	<u>21,913</u>

<u>Total Operating Expenses</u>		<u>170,593</u>
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<u>Operating Income (Loss)</u>	\$	<u>38,517</u>
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NONOPERATING REVENUES (EXPENSES)

Extraordinary Maintenance	\$ (2,495)
Depreciation Expenses	<u>(55,779)</u>

<u>Total Non Operating (Expenses)</u>	\$	<u>(58,274)</u>
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Change in Equity	\$	(19,757)
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Equity- Beginning		1,305,045
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Prior Period Adjustment- Miscellaneous		<u>(295)</u>
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Equity- Ending	\$	<u>1,284,993</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

Statement of Cash Flows
For the Year Ended March 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 110,689
Payments to Suppliers	(81,831)
Payments to Employees	(102,097)
HUD Grants	92,709
Other Receipts (Payments)	<u>5,721</u>

Net Cash Provided (Used) by Operating Activities \$ 39,068

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets (net of Transfers)	\$ (23,049)
Increase in Investments	<u>(121,153)</u>

Net Cash Provided (Used) by Capital and
Financing Activities \$ (144,202)

Net Increase (Decrease) in Cash
and Cash Equivalents \$ (105,134)

Balance- Beginning of Year 171,325

Balance- End of Year \$ 66,191

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (19,757)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	55,779
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(909)
Prepaid Expenses	(1,057)
Interfund Due From	(1,741)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	4,209
Accrued Liabilities	1,523
Accrued Compensated Absences	(904)
Security Deposits	(120)
Accounts Payable- Other Governments	261
Deferred Revenue	43
Interfund Due To	<u>1,741</u>

Net Cash Provided by Operating Activities \$ 39,068

The Accompanying Notes are an Integral Part of the Financial Statements

Notes to Financial Statements
March 31, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Caseville Housing Commission, Caseville, Michigan, (Commission) was created by ordinance of the city of Caseville. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 191-1	Low rent program	47 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Account	\$ 42,454
Petty Cash	50
Savings Account	<u>23,687</u>
Financial Statement Total	\$ <u>66,191</u>

Investments:

Certificates of Deposit	\$ <u>135,143</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 42,454	\$	\$	\$ 42,454	\$ 42,454
Savings Account	23,687			23,687	23,687
Petty Cash	<u>50</u>			<u>50</u>	<u>50</u>
Total Cash	\$ <u>66,191</u>	\$	\$	\$ <u>66,191</u>	\$ <u>66,191</u>
Investments:					
C/D's	\$ <u>135,143</u>	\$	\$	\$ <u>135,143</u>	\$ <u>135,143</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>		<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>				<u>of Year</u>
Land	\$ 75,000	\$	\$	\$	75,000
Buildings	1,566,837		15,714		1,582,551
Furniture & Equipment-Dwellings	9,668				9,668
Furniture & Equipment-Admin	49,428		4,709	401	53,736
Leasehold Improvements	<u>0</u>		<u>2,626</u>		<u>2,626</u>
	\$ 1,700,933	\$	23,049	\$ 401	\$ 1,723,581
Less Accumulated Depreciation	<u>553,691</u>		<u>55,779</u>	<u>401</u>	<u>609,069</u>
	\$ <u>1,147,242</u>	\$	<u>(32,730)</u>	\$ <u>0</u>	\$ <u>1,114,512</u>

Note 4: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after September 30, 1998. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

Original Contributed capital consisted of reserved and unreserved surplus, and cumulative HUD contributions; subsequent years are adjusted for depreciation add backs, and additional contributed capital.

Note 5: Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended March 31, 2004, is as follows:

Operating Revenue	\$	92,709
operating Income		38,517
Non Operating Revenue (Expenses)		
Extra Ordinary Maintenance		(2,495)
Depreciation Expense		(55,779)
Net Profit (Loss)		19,757
Non Current Assets (net)		1,114,512
Total Assets		1,325,647
Retained Earnings		412,941

Note 6: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 2,850,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Caseville Housing
Commission

31-Mar-
04

Combining Balance Sheet		Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	66,191	-	66,191
112	Cash - restricted - modernization and development		-	-
113	Cash - other restricted			-
114	Cash - tenant security deposits			-
100	Total cash	66,191	-	66,191
	Accounts and notes receivables:			
121	Accounts receivable - PHA projects			-
122	Accounts receivable - HUD other projects		1,741	1,741
124	Accounts receivable - other government			-
125	Accounts receivable - miscellaneous		-	-
126	Accounts receivable- tenants - dwelling rents			-
126.1	Allowance for doubtful accounts - dwelling rents			-
126.2	Allowance for doubtful accounts - other	-		-
127	Notes and mortgages receivable- current			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivable	431		431
120	Total receivables, net of allowances for doubtful accounts	431	1,741	2,172
	Current investments			-
131	Investments - unrestricted	135,143		135,143

132	Investments - restricted	-		-
142	Prepaid expenses and other assets	5,888		5,888
143	Inventories			-
143.1	Allowance for obsolete inventories			-
144	Interprogram - due from	1,741		1,741
146	Amounts to be provided			-
150	TOTAL CURRENT ASSETS	209,394	1,741	211,135
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	75,000		75,000
162	Buildings	1,575,874	6,677	1,582,551
163	Furniture, equipment & machinery - dwellings	9,668	-	9,668
164	Furniture, equipment & machinery - administration	50,156	3,580	53,736
165	Leasehold improvements	-	2,626	2,626
166	Accumulated depreciation	(608,438)	(631)	(609,069)
160	Total fixed assets, net of accumulated depreciation	1,102,260	12,252	1,114,512
171	Notes and mortgages receivable - non-current			-
172	Notes and mortgages receivable-non-current-past due	-		-
174	Other assets			-
175	Undistributed debits			-
176	Investment in joint ventures			-
180	TOTAL NONCURRENT ASSETS	1,102,260	12,252	1,114,512
190	TOTAL ASSETS	1,311,654	13,993	1,325,647
	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	12,122		12,122
313	Accounts payable > 90 days past due			

				-
321	Accrued wage/payroll taxes payable	4,032		4,032
322	Accrued compensated absences	2,713		2,713
324	Accrued contingency liability	-		-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA programs		-	-
332	Accounts Payable - PHA Projects			
333	Accounts payable - other government	8,811		8,811
341	Tenant security deposits	11,192		11,192
342	Deferred revenues	43	-	43
343	Current portion of Long-Term debt - capital projects			-
344	Current portion of Long-Term debt - operating borrowings			-
345	Other current liabilities			-
346	Accrued liabilities - other	-		-
347	Inter-program - due to		1,741	1,741
310	TOTAL CURRENT LIABILITIES	38,913	1,741	40,654
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital projects			-
352	Long-term debt, net of current- operating borrowings			-
353	Noncurrent liabilities- other			-
350	TOTAL NONCURRENT LIABILITIES	-	-	-
300	TOTAL LIABILITIES	38,913	1,741	40,654
	EQUITY:			
501	Investment in general fixed assets			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guaranteed	-		-

504	Net HUD PHA contributions	872,052	-	872,052
505	Other HUD contributions	-		-
507	Other contributions			-
508	Total contributed capital	872,052	-	872,052
	Reserved fund balance:			-
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	400,689	12,252	412,941
513	TOTAL EQUITY	1,272,741	12,252	1,284,993
600	TOTAL LIABILITIES AND EQUITY	1,311,654	13,993	1,325,647

Caseville Housing Commission 31-Mar-
04

	Combining Income Statement	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	REVENUE:			
703	Net tenant rental revenue	110,128	-	110,128
704	Tenant revenue - other	552		552
705	Total tenant revenue	110,680	-	110,680
706	HUD PHA grants	41,755	50,954	92,709
708	Other government grants			-
711	Investment income - unrestricted	3,161	-	3,161
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	2,530		2,530
716	Gain or loss on the sale of fixed assets	30		30
720	Investment income - restricted		-	-
700	TOTAL REVENUE	158,156	50,954	209,110
	EXPENSES:			

	Administrative			
911	Administrative salaries	49,987	-	49,987
912	Auditing fees	2,000	-	2,000
913	Outside management fees		-	-
914	Compensated absences	904		904
915	Employee benefit contributions- administrative	11,169	-	11,169
916	Other operating- administrative	13,441	-	13,441
	Tenant services			
921	Tenant services - salaries			-
922	Relocation costs			-
923	Employee benefit contributions- tenant services			-
924	Tenant services - other	1,972		1,972
	Utilities			
931	Water	13,782		13,782
932	Electricity	4,200		4,200
933	Gas	4,084		4,084
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilities			-
938	Other utilities expense	-		-
	Ordinary maintenance & operation			
941	Ordinary maintenance and operations - labor	17,967		17,967
942	Ordinary maintenance and operations - materials & other	5,966	-	5,966
943	Ordinary maintenance and operations - contract costs	21,107	-	21,107
945	Employee benefit contributions- ordinary maintenance	1,800		1,800
	Protective services			
951	Protective services - labor			-
952	Protective services- other contract costs			-
953	Protective services - other	301		301
955	Employee benefit contributions- protective services			-
	General expenses			
961	Insurance premiums	13,102		13,102

962	Other General Expense			-
963	Payments in lieu of taxes	8,811		8,811
964	Bad debt - tenant rents			-
965	Bad debt- mortgages			-
966	Bad debt - other			-
967	Interest expense			-
968	Severance expense			-
969	TOTAL OPERATING EXPENSES	170,593	-	170,593
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(12,437)	50,954	38,517
971	Extraordinary maintenance	2,495		2,495
972	Casualty losses - non-capitalized			-
973	Housing assistance payments		-	-
974	Depreciation expense	55,148	631	55,779
975	Fraud losses			-
976	Capital outlays- governmental funds	-		-
977	Debt principal payment- governmental funds			-
978	Dwelling units rent expense			-
900	TOTAL EXPENSES	228,236	631	228,867
	OTHER FINANCING SOURCES (USES)			
1001	Operating transfers in (out)	38,071	(38,071)	-
1002	Operating transfers out			-
1003	Operating transfers from/to primary government			-
1004	Operating transfers from/to component unit			-
1005	Proceeds from notes, loans and bonds			-
1006	Proceeds from property sales			-
1010	TOTAL OTHER FINANCING SOURCES (USES)	38,071	(38,071)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(32,009)	12,252	(19,757)

Status of Prior Audit Findings
March 31, 2004

The prior audit of the Caseville Housing Commission for the period ended March 31, 2003, did not contain any audit findings

Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
March 31, 2004

I have audited the financial statements of Caseville Housing Commission, Caseville, Michigan, as of and for the year ended March 31, 2004, and have issued my report thereon dated July 22, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Caseville Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Caseville Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

July 22, 2004

Schedule of Findings and Questioned Cost
March 31, 2004

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Report on compliance for major programs-

Unqualified

Thresholds

Dollar limit used to determine type A & B programs- \$ 300,000

2) Findings relating to the financial statements reported in accordance with
Government Auditing Standards:

None

3) Findings and Questioned Costs relating to Federal Awards:

None